

April 12, 2000

The Honorable Trent Lott
Majority Leader
United States Senate
The Capitol, S-230
Washington, DC 20510

The Honorable J. Dennis Hastert
Speaker of the House
U.S. House of Representatives
The Capitol, H-232
Washington, DC 20515

Dear Senator Lott and Speaker Hastert:

I understand that Congress may soon consider proposals addressing the Internet Tax Moratorium set to expire next year. Technology has been a central focus of my administration since I took office 5 years ago. From education to public safety, our commitment to information technology is helping Pennsylvania to remain competitive in the global economy and preserve the high quality of life in the Commonwealth. Internet based commerce is changing the face of how we do business in Pennsylvania and providing rapid access to a whole new world of information.

To foster the electronic boom I support an extension of the current Moratorium on access, multiple, or discriminatory taxes. The Internet has been growing at a record pace and I believe the moratorium has facilitated that process by assuring that commerce over the Internet is not singled out and taxed in new and creative ways. That is why I proposed and the Legislature approved a repeal of Pennsylvania sales taxes on computer services as well as a tax prohibition on Internet access charges. More recently, in my 2001 budget, I have proposed a Sales Tax Holiday for Commonwealth residents who buy personal computers.

Pennsylvania is rather unique because we continue to manufacture goods. Thus, technological advances are often applied to many of those goods produced in Pennsylvania. Decisions on the taxation on Internet commerce therefore, are very complex and must balance the needs of both Internet and Main Street based businesses.

The report submitted by the ACEC Business Caucus to the Advisory Commission on Electronic Commerce acknowledged that "In addressing whether and how the Internet should be subject to taxation, a major priority should be reducing or removing access barriers to perhaps the most advanced and useful medium of communication and commerce yet devised". I concur.

I also agree with the Caucus position that the system taxation of remote sales should be simplicity, efficiency and fairness---and that "(o)ur system of federalism mandates that the burden to produce such a system falls on the states".

My concerns with the report include their preemption of the state role, albeit for allegedly a period of five years, during which time the Caucus recommends that Congress pass laws preempting state sovereignty. We, state and local elected officials, are best suited to reach a consensus on what changes need to be made to our sales and property taxes without creating a competitive disadvantage for any of our businesses. The magnitude of the undertaking is only equaled by its importance. States must work with local governments and its stakeholders---consumers, telecommunication and other remote businesses as well as our Main Street business to address these challenges.

As Congress considers legislation on Internet taxation, I hope that a guiding principle will be fair competition between Main Street businesses and Internet businesses. An extension of the Moratorium will provide us more time to asses the situation and ensure that we do no harm to either side. I strongly urge that when considering the impact of electronic commerce on our economy, any changes to the state tax structure should be done gradually and with consultation of all stakeholders.

Sincerely,

Tom Ridge